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Why advisors are cautiously optimistic about Fed rate cut
By Rob Burgess
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For the most part, financial advisors are maintaining a feeling of stagnant unease about the overall economy. But in at least one area, they appear to be cautiously optimistic.

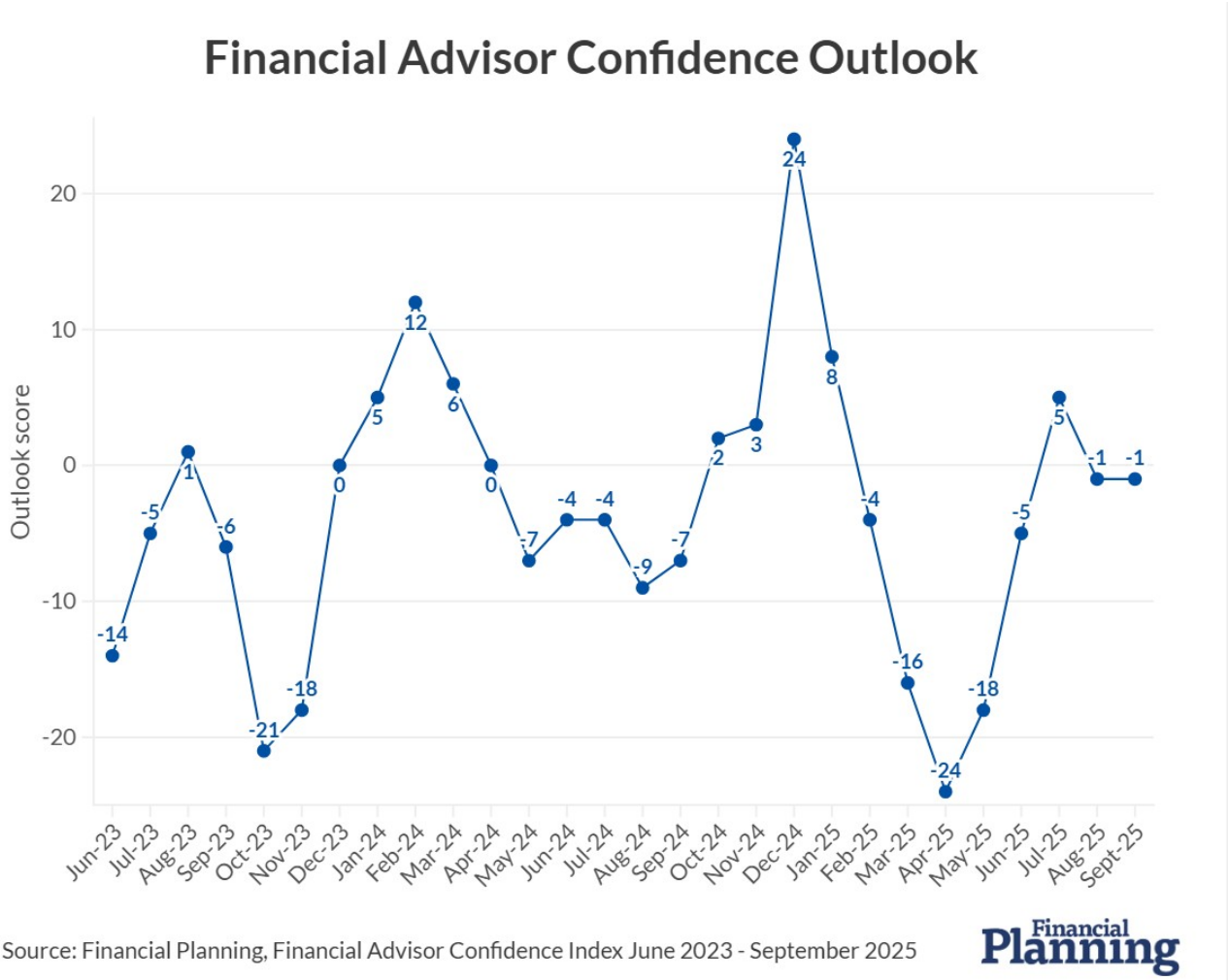
The expected Federal Reserve rate cut came to pass this week, as the short-term rate was lowered from 4.3% to 4.1%, the first cut since December 2024.

Advisors, for the most part, had hoped for the rate cut, according to Financial Planning's September Financial Advisor Confidence Outlook (FACO), a survey of financial advisors and planners that measures confidence in the economy and other factors on a scale of minus-100 to 100.

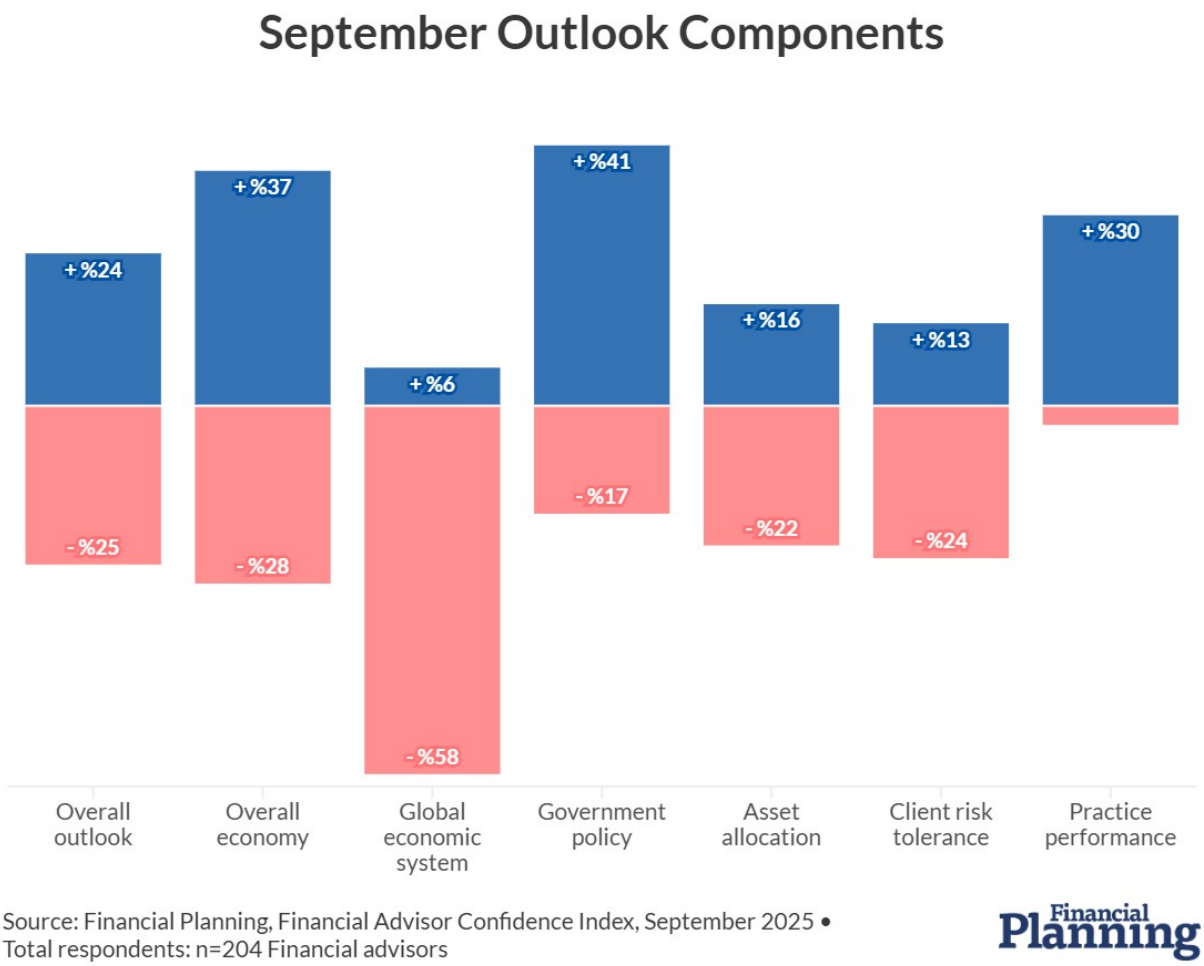
When asked what was impacting their practice or outlook, one advisor wrote, "Fed monetary policy and the need to cut rates."

"Interest rates [are] still high, but there is hope it will be cut in the next month," wrote another.

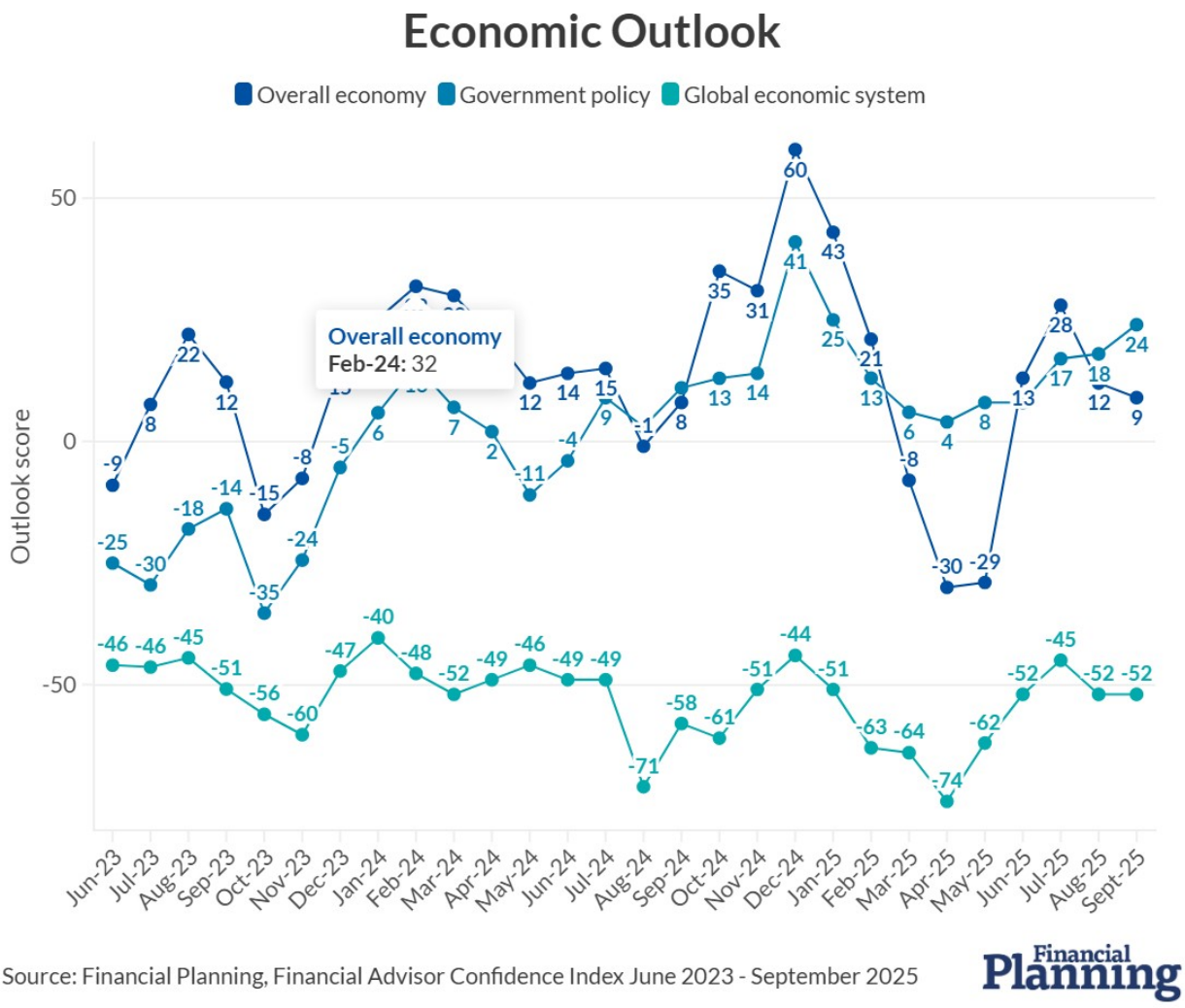
The overall sentiment among advisors remained the same from the previous month at a score of minus-1.



There were a mix of reasons for this conglomerate metric.

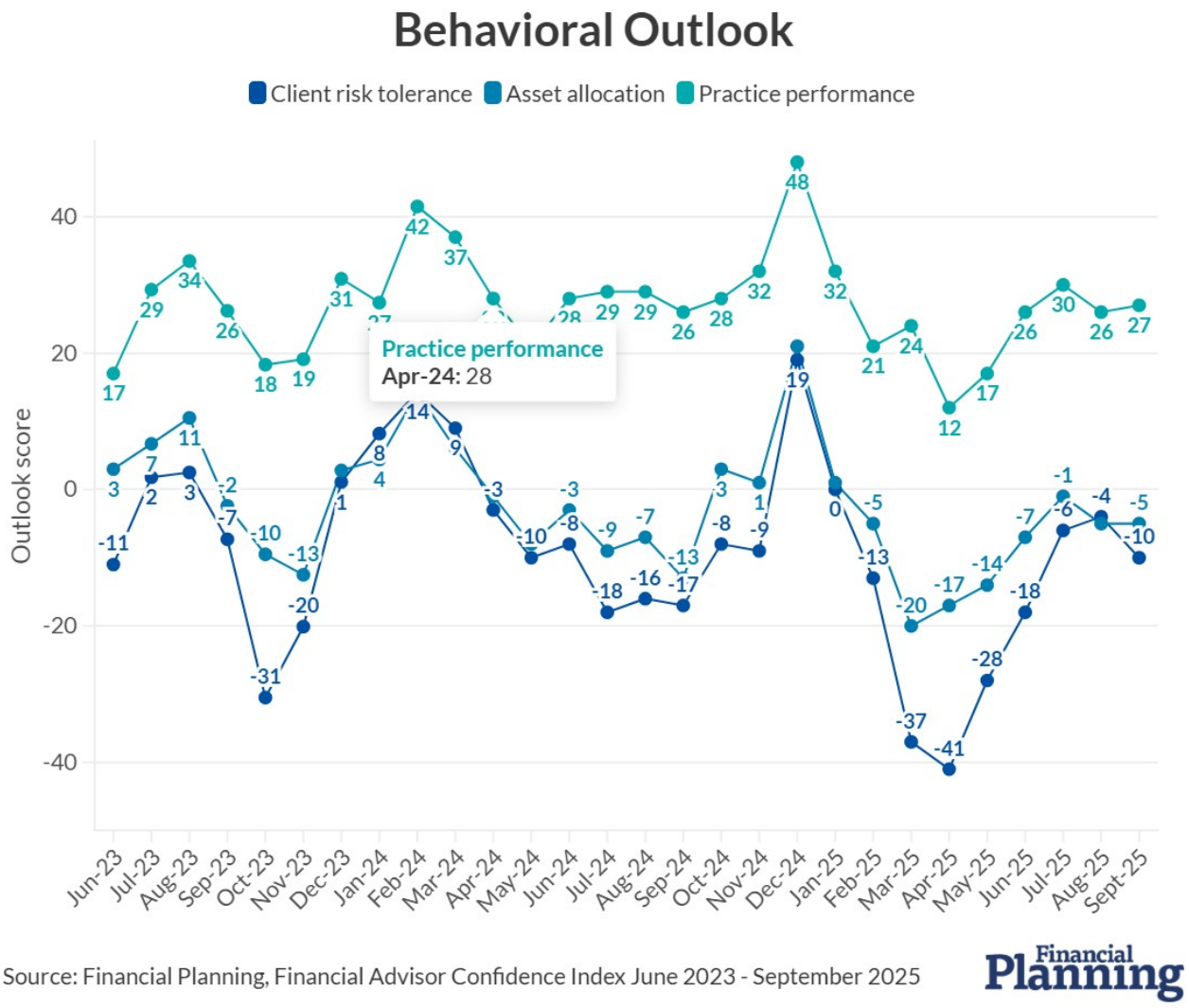


The score for practice performance rose slightly from 26 in August to 27 in September. However, sentiment on the economy fell slightly from a score of 12 in August to 9 in September, while asset allocations and faith in the global economic system remained the same month-over-month at minus-5 and minus-52, respectively.



Source: Financial Planning, Financial Advisor Confidence Index June 2023 - September 2025

The remaining two categories canceled each other out. While government policy rose 6 points, from a score of 18 in August to 24 in September, client risk tolerance fell by the same amount, from minus-4 in August to minus-10 in September.



But if advisors were feeling somewhat positive about a rate cut, many remained worried about the economic issues that made it necessary.

This month's rate cut reflects a soft labor market

In last month's FACO survey, advisors indicated fears about the health of the overall economy, despite a stock market flirting with all-time highs.

Beneath the surface lurked concerns over tariffs, sticky inflation and a tight job market.

"The potential for stagflation due to tariffs would be disastrous," wrote one advisor. "The tight labor market makes it difficult for the unemployed to find jobs."

Wednesday's rate cut elevates concerns about a softening labor market in the Fed's reasoning, said Josh Hirt, senior U.S. economist at Vanguard.

"The Fed's congressional dual mandate is to ensure price stability and to

promote maximum sustainable employment," he said. "To have to focus on one side of the mandate can increase risk to the other side."

Turmoil marks outlook for the Fed's independence

This month's rate cut was no surprise to many, including many FACO respondents.

Among those who were not shocked was Alan Kosan, senior vice president of Alpha Research at investment consultancy Segal Marco Advisors.

But, where the Fed goes next is anything but settled, he said.

Chairman Jerome Powell and the board confirmed that monetary policy would focus on the employment picture as the larger risk to the economy than inflation, at least for now, said Kosan.

What was most interesting to Kosan was the new "dot plot" (representing the opinions of each member of the Fed's policymaking group, the Federal Open Market Committee), which revealed a wide variety of forecasts among the governors regarding federal fund rates.

This comes at a time where the Fed's independence is under attack under the administration of President Donald Trump.

Just a day after the rate drop was announced, the Trump administration asked the Supreme Court for an emergency order to remove Lisa Cook from the Fed's board of governors.

"The instability of political interference in regard to the Fed's governing" was among the concerns of one advisor who responded to this month's FACO. "My clients are concerned we are headed in the wrong direction."

When the diverse dot plot is taken together with the friction surrounding the Fed's political independence, "It makes forward guidance on longer-term rate projections more uncertain than the markets would like," said Kosan.